CEO Experience and Firm Performance: Evidence from Nigerian Financial Sector

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Abstract: Experiences in many aspects are important in determining factor for the selection and promotion of employees, especially to managerial positions. However, empirical evidence on the contribution of CEO experiences to firm outcomes is limited. This paper attempts to address the literature gap by examining the impact of CEO experience on the firm financial performance of the listed firms in the financial sector. The study uses balanced panel data for six years from 2011 to 2016 in running regression analysis. Independent variables that include the CEO tenure and CEO multiple board memberships are considered in measuring the CEO experience. The result from the analysis indicates that CEO tenure has a negative effect on firm performance measured by ROA. The finding supports the view of the agency theory that CEO has an opportunistic tendency when they stay longer than the industry average. The implication is that the CEO that stays long in office need to be closely monitored so that they could use their know-how in pursuing the goals of the organisation rather than their selfish goals.

Keywords: CEO tenure, expertise, experience, firm performance, multiple memberships.

Introduction

The Chief Executive Officer (CEO) in organisation has multiple roles in ensuring that the organisation is managed in line with the companies' overall objectives. The CEOs, especially in Nigeria, are not only entrusted with managing the day to day affairs of the company but also partake in monitoring other managers being that she/he is part of the board which is the overall overseer of the activities of the companies' management. Being an important figure in the organisation, several considerations are made to ensure that the CEO that manage the affairs of the firm, possesses the qualities and managerial acumen that will enable them serve the firm well. One of the important qualities that are widely talked about in both management and corporate governance domain is the length of time served as manager (tenure). It is believed that CEO tenure has great influence in the organisational ability to achieve their ends (Simsek, 2007). Several studies revealed conflicting findings about the directors' tenure in achieving the organisational performance. For instance, Coles, McWilliams, and Sen (2001) reported that the CEO tenure has linearly positively connected to firm performance. This implies that companies needs to let the CEO stay relatively longer on the board to attain maximum performance. However,

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in Nigerian financial sector, it has been pointed that many long serving CEOs partake in bringing down their firms. It is in that line that the revised CBN code of corporate governance limited the tenure of the banks CEOs to ten (10) years which is made up of two terms. Many CEOs had to resign when the code came into force. This is against the findings in some studies which found that tenure affects performance positively in African countries (Kyereboah-Coleman, 2008). Aburime (2013) argued that limiting the tenure negates the CEO-firm performance paradigm. This study therefore is considering whether CEO tenure above the industry average could affect the firm profitability. Moreover, tenure is not the sole experience indicator hence the need to include other components of CEO experiences.

In addition to tenure, numerous studies revealed other sources of experience that could equally contribute to the firm performance. Simsek (2007) believed that the positive relation between CEO tenure and firm performance is indirect through some intervening variables. Koyunci, Hamori and Baruch (2016) emphasised that CEO with prior experience is preferable and better shareholders' wealth. Theoretical view of resource dependency theorist emphasised the need to source expertise from external environment. This implies that a manager with membership connection to other boards within and outside the industry may help through his verse connections achieve the organisations goals because connected manager is a source of vital information from the external environment (D'Aveni, 1990). This study therefore attempts to unravel the issue surrounding the impact of the CEO tenure and multiple memberships on firm performance. The study draw data from listed firms in the financial sector due to the fact that most of the CEO identified abusing their powers are from the sector.

Literature Review

Theoretical Framework

One of the key assumptions of the agency theory is that the manager (CEOs in this regard) is inclined toward achieving their own interest irrespective of whether the interests tally with that of their principals (Fama, 1980). The extension of the theory portrays CEO power as an inimical tool used at the detriment of the shareholders (Adams, Almeida, & Ferreira, 2005; Li, Meng, Wang, & Zhou, 2008; Veprauskaitė & Adams, 2013; Gupta, Han, Nanda, & Silveri, 2018). There is emphasis on the need to use many of the available attribute of the CEO power. Finkelstein (1992) identified four dimensions of power and one of them is the expert power. Some studies used tenure as one of the measure of CEO experience. Similarly, expertise knowledge and CEO multiple membership are good sources of such powers. Shen (2003) argued that CEO power increase over time hence the time taken in the office has impact on the firm outcomes (performance). Some researches using agency perspective also advanced that due to managerial opportunism of the executive power, a CEO need to be put under control. One of the reasons is that a powerful CEO shift blames on his subordinate for the companies poor performance. Aaron, McMillan, and Dunne (2015) used agency perspective to study the CEO tenure in relation to some

firm's outcomes.

Prior studies used social network theory whose fundamental axiom is the notion that actors are not independent but rather influence each other (Borgatti & Li, 2009). Researches documented that social networks play important role in businesses growth. For instance, Butler and Gurun (2012) maintained that social network has many benefit such as sharing valuable information, investment opportunities and reducing financial transactions that are good in enhancing firm outcomes. In line with the point of view of the scholars of the thought, the interlocks are beneficial because it allow the diffusion of innovations through which a variety of policies and practices are spread across firms (G. F. Davis, 1991). Muttakin, Khan, and Mihret (2018) asserted that board member with good level of experience and social networks is better able to perform their duties than director with lesser experience, unproven track records and limited social networks. However, a strand of social network maintained that highly connected CEO may not garner attention to the firm's performance. In that direction, Bebchuk, Cremers, and Peyer (2007) established that CEO connection has negative impact on firm performance. Similarly, Khanna, Kim, and Lu (2012) maintained that CEO connectedness increase the chance of fraud.

CEO Tenure and Firm Performance

Number of empirical evidences revealed that CEO tenure relates to various organisational outcome notably, the firm performance and performance variability (Adams et al., 2005). Many other studies examined the impact of CEO tenure because of the strategic advantage it has in enhancing the ability of the CEO to enforce a decision or maintain the policy upon which the company is governed. As their tenures increase, CEOs often gain knowledge and power which can facilitate the pursuit of entrepreneurial initiatives. In addition, Wang, Xie, and Zhu (2015) stated that CEO gains greater familiarity with the resources, culture and organizational structure as well as with the external environment in which the firm operates. The study furthered that CEO becomes better equipped to match the internal capabilities with external opportunities, thereby promoting entrepreneurial initiatives.

In agency theory there is pessimism about the manager's interestedness in running the affairs of the organisation. This is why studies projected that long serving manager may have the tendency of pursuing their opportunistic ends instead of the organisational goal (Allgood & Farrell, 2000). While many studies found linear relationship between CEO tenure and firm performance (Coles et al., 2001; J. H. Davis, Schoorman, & Donaldson, 1997), some other studies discovered that tenure could be curvilinear. Coles et al. (2001) further showed that the longer the managers stay in office the better for the organization. Another alternative view is that there are seasons to CEO tenure which have implications to organization performance.

Allgood and Farrell (2000) explored the effect of CEO tenure and entrenchment on the firm performance. The result from their analysis showed that CEO turnover has a constant negative relation between firm performance and forced turnover throughout an inside CEO's tenure. Aaron et al. (2015) examine the impact of age and tenure on firm performance. The study showed that new CEO performs better than an older one and

more so, the CEO with young age performs more than an elderly CEO. However, [Ali and Zhang \(2015\)](#) argued that the high performance observed during the early years of the CEO in office is but as a result of the manipulations of the accounting earnings.

Boling et al. (2016) attempted to find evidence of relationship between tenure and entrepreneurial orientation in both family and non-family owned businesses. Evidences from the analysis shows that there is inverted U shape between the variables which is consistent with the executive life cycle studies. However, the study did not consider all sectors in their analysis therefore, making the finding difficult to make generalisation. Also [Al-Najjar \(2017\)](#) reported that there is positive non-linear relationship between CEO tenure and firm performance. There is therefore, a need to explore other avenues by which Chief Executive officer can be measured to offer better assessment of their influence. Drawing from agency theory and some findings, the following hypothesis can be stated as thus; H1: CEO tenure has a negative effect on firm performance

CEO Multiple Membership

CEO membership on board of directors of other firms implies additional board experience they may likely acquire due to differences in the other firms' experiences. Evidence showed that director serve many board depending on the general practice of the particular setting ([Nicholson & Kiel, 2007](#)). Gilson (1990) found that a powerful CEO may serve as not only a member of other board but also a CEO of other firm(s). Corporate connectivity of the company chief executive officer has been seen as one of the strength with which they can advance the firm forward. In some countries such as Australia, multiple memberships of the directors are rare practice. However, many other countries such as Nigeria have prevalent practice of multiple directorships. This may warrant the CEO to participate in many boards.

Empirical evidences showed diverse outcomes. Hallock (1997) revealed that the CEOs who are also members of other boards are likely to earn more compensation than the CEOs who are not interlocked irrespective of the outcome of company. Further evidence shows that over eight per cent of the CEOs are reciprocally interlocked. Further evidence show positive relationship between the number of boards CEO is service and the performance. [Geletkanycz and Boyd \(2011\)](#) used long term performance measurement to test the relationship and result shows that CEO outside directorships are positively related to the performance of firms facing competitive constraints on growth. Despite the positive relationship shown in number of studies, some studies show evidence of negative effect of multiple board membership. [Jackling and Johl \(2009\)](#) reported negative effect of multiple board membership on firm outcome. [Jackling and Johl \(2009\)](#) examined the effects of many governance structure on firms profitability by further examining the effect of multiple membership. The result show strong evidence of negative impact on performance. [Fich \(2000\)](#) tested the relationship using Tobin Q as performance variable which indicate absence of relationship between CEO on other board and firm value. Also [Kiel and Nicholson \(2006\)](#) reported insignificant relationship with performance. However, they used data from Australian business environment where multiple board membership is rear. Studying social networks of the French corporate boards, ([Bertrand, Kramarz,](#)

Schoar, & Thesmar, 2007) documented that a well connected CEO has worse accounting performance. In line with the above empirical evidence and the position of the second strand of social network theory, the following hypothesis is conjectured;

H2: CEO multiple membership has a negative relationship with firm performance.

CEO Power

Agency theory emphasised on the relationship between the shareholders and the CEO whereby each of the two try to maximise own benefit. The theory predicts that a powerful CEO might use their discretion in achieving their end (Tien, Chen, Chuang, et al., 2013). Studies show that the greater the degree of decision-making discretion held by the CEO the wider the information gap and the chances for the CEO to make a decision that may not benefit the shareholders (Brown & Sarma, 2007). This entails that any attempt to increase the CEO power may affect the performance adversely. In the light of above, this study considers interaction between the CEO tenure and multiple membership and states the following hypotheses;

H3: The interaction effect of CEO tenure and CEO multiple membership affects firm performance negatively.

Methodology

This study examines the influence of the CEO experience in determining the financial performance of business by directing attention on firms in the financial sector. Data are collected from the financial sector which comprises of 56 firms which include banks, insurance, life assurance and other financial services firms. Total sample of 33 firms are selected after considering the information disclosure on the annual reports of the firms and other sources such as the Thomson Reuters, Bloomberg and Financial Times. The study considers data for six (6) years period from 2011 to 2016 leading to 198 firm year observation. The period is considered due to the fact that 2011 marked the year from which companies in Nigeria are mandated to report their financials in line with the International Financial Reporting Standard (IFRS). Sample are taken from the sector due to the intriguing nature of the sector which made the code impose some strict regulation on the tenure of the directors with special emphasis on the CEO. Also there is a high need for CEO with the basic experience needed for the sectors.

For the purpose of this study Return on Asset (ROA) and Return on Equity (ROE) are used as the dependent variables which are the measure of firm performance. ROA and ROE are generally accepted as the performance measurement in business research (Binacci, Peruffo, Oriani, & Minichilli, 2016). ROA is measured as the ratio of the net income for the year divided by the total asset at the end of the year. ROA is generally used as the measure of firm performance because it considers not only the operational events over the year but also the relevance of the historic antecedence of the firm over the year. ROE is the

ratio of the net income for the year divided by shareholders equity at the beginning of the financial year. ROE measures the ability of a firm to generate income from its shareholders investments in the firm

To test the relationship between the CEO experience and firm performance two variables that denote CEO experience are used. The first of the two is the CEO tenure which is described as the sum total number of years the CEO has been in office since there appointment (Aburime, 2013; Al-Najjar, 2017). The tenure are converted into dummy variables as in Allgood and Farrell (2000) with slight modification. The tenure is converted to dummy such that 1 is used where CEO tenure is above the industry average otherwise 0. The study cosiders tenure because it is beleived that CEOs know more about the business and connections are expanded in the course of time the CEO stays in office. CEO membership on other boards also indicates the experience obtained from other domain outside the firm. The study also use a dummy variable by indicating 1 if the CEO serve on board of other firm and 0 otherwise.

Three control variables are used in the study to control for the firm level effect on the regression result. The variables include the firm size which is measured as the log of the total assets at the end of the year. Also ratio of cash flow to tatal assets is used to control for the effect of the cash inflow from operating activity. Finally, the study uses leverage ratio which is the ratio of the debt to equity.

Empirical Model

This study uses regression to test the hypotheses on the relationship between the CEO experience and firm performance. The dependent variable in the model is the firm performance and the study uses the return on assets (ROA) and return on equity (ROE) as proxies. The independent variable are the CEO tenure and CEO board membership. To analyse the data a cross-sectional observation of six years has been used for the selected firms. The regression technique is used by prior studies in testing the hypothesis on the relationship between CEO characteristics and firms outcomes such as financial performance (Adams et al., 2005; Barker III & Mueller, 2002; Simsek, 2007). Also Wang et al. (2015) adopted the model in investigating the impact of industry expertise on board monitoring. The model is expressed as follows;

$$Performance = f(CEO\ experience)$$

$$PERFORMANCE = \alpha + \beta_1 TEN_{it} + \beta_2 CEOMM_{it} + \beta_3 Siz_{it} + \beta_4 CFO_{it} + \beta_5 LEV_{it} + \epsilon \quad (1)$$

$$PERFORMANCE = \alpha + \beta_1 TEN_{it} + \beta_2 CEOMM_{it} + \beta_3 TEN_{it} * COEMM_{it} + \beta_4 Siz_{it} + \beta_5 CFO_{it} + \beta_6 LEV_{it} + \epsilon \quad (2)$$

Where α = intercept; ROA = Return on Assets; ROE = Return on Equity; TEN = CEO Tenure CEOMM = CEO membership on other board of directors; Siz = Firm size; CFO = Cash flow from operation; LEV = Leverage ratio; ϵ = error term

Result and Discussion

To mitigate the effect of outliers, all the variables are winsorised at fifth and ninety-fifth percentile. This is in line with the prior studies that used from 1% to 10% of the lower and upper limits to attenuate the potential outliers (Lisic, Neal, Zhang, & Zhang, 2016; O'Shannassy & Leenders, 2016; Vafaei, Ahmed, & Mather, 2015). The result of analysis of the data are discussed under three subheadings. They includes the descriptive statistics where the summary of the basic statistics about the data that include the means and standard deviation of the study are explained. Also the correlational matrix is explained under this section. Finally, regression result is discussed together with the regression basic assumptions.

Descriptive Statistics

Table 1 below is the descriptive statistics which describes some of the basic statics for all the variables of the study. It could be seen from the table that the mean, maximum and minimum values are depicted for each of the variables. The maximum number of years of 24 for the tenure is as a result of one of the directors who stays in office for up to 24 years. This is not surprise because one of the directors in the non-banking sector stayed up to 24 years as the CEO of the company. The average CEO tenure is approximately five years as explained in the table. This shows that most of the CEOs stay in office for at least one tenure of five year. Similarly, 74% of the CEOs have membership on board other than the board they are appointed as the CEO. This corroborate the previous studies that maintained that multiple directorship is prevalent in Nigeria.

Table 1
Descriptive Statistics

	Mean	Max	Min	St.Dev	N
ROA	2.670	23.27	-25.95	5.130	198
ROE	5.680	97.82	-265	27.10	198
TEN	4.610	24.00	0.000	4.820	198
CEO Multiple Member	0.742	1.000	0.000	0.438	198
Firm Size	8.007	9.574	6.801	1.006	198
Cash Flow from Operation	0.044	0.290	-0.16	0.005	198
Leverage Ration	0.320	11.75	0.000	1.370	198

Note: ROA = return on assets; ROE = return on equity;
TEN = CEO tenure; N = number of observation.

Correlation Matrix

Table 2 highlighted the correlation among the variables using pearson correlation technique. The table show that there is negative correlation between CEO tenure and firm profitability as measured by the Return on Equity (ROE). The correlation coefficients of firm profitability and CEO board membership are positive but insignificant. The negative correlation of CEO tenure is not surprise because Sanusi (2010) noted that banks CEO gather overbearing influence which contribute in weakening the board. Overall, the Pear-

son correlation show that the overall experience in office is negatively correlated with firm performance in the financial sector.

Table 2
Pearson Correlation Matrix

Variable	1	2	3	4	5	6	7
(1) ROE	1						
(2) ROA	0.67***	1					
(3) CEO Tenure	-0.054	-0.147**	1				
(4) CEO_MM	0.017	0.003	-0.024	1			
(5) SIZE	0.339**	-0.111	0.011	-0.017	1		
(6) CFO	0.095	0.311***	0.029	-0.071	-0.336***	1	
(7) Leverage	-0.131*	-0.216**	-0.098	0.112	-0.217**	-0.254***	1

Note: ROA = return on assets; ROE = return on equity; CEO_MM = CEO multiple board membership; CFO = ratio of operating cash flow to total assets; * p < 0.05, ** p < 0.01, *** p < 0.001

Regression Diagnostics

To ascertain the validity of an ordinary least square regression as a good estimator, the classical assumptions of the model must hold true. One of the most important assumptions is that the error term has to be normally distributed. In other word, the error term of the dependent variables must have the mean value of 0. This study uses various test for data normality which include Skewness and Kurtoses and Shapiro-Wilk test to ascertain the normality of the data. Below is the descriptive statistics for the data normality after winsorising at 5th and 95th percentile.

Table 3
Skewness and Kurtosis

	ROA	ROE	TEN	CEO_MM	CFO	Firm Size	Leverage
Skewness	0.573	-0.086	0.121	-1.109	0.459	0.307	0.599
Kurtosis	2.889	2.719	1.015	2.229	2.314	1.421	2.526
SE(Mean)	0.264	0.76	0.036	0.031	0.005	0.072	0.006
N	198	198	198	198	198	198	198

Note: ROA = return on assets; ROE = return on equity; CEO_MM = CEO multiple board membership; CFO = ratio of operating cash flow to total assets.

Table 3 above presents the statistics for all the variables with regards to skewness and kurtosis. According to [Sekaran and Bougie \(2016\)](#) data are normally distributed when the value for skewness and kurtosis are within the acceptable range. There are various threshold for the ranges. Following skewness are acceptable if the value is within the range of ± 2 and ± 8 for the kurtosis. Table 4.3 above shows that the highest and least values for skewness are 0.599 and -1.109 respectively while the kurtosis has the highest value of 2.89 and least value of 1.015. This implies that the data are normally distributed for all the variables. Similarly, using Shapiro-swilk test, the result of the test show that the residuals are normally. Furthermore, using the P-plot of the descriptive statistics of the residuals and histogram of the standardized residuals, the graph shows a good agreement with the ideal line which indicates that the residuals are normally distributed.

Furthermore, multicollinearity is checked in the dataset using Variance Inflation Factor (VIF). Multicollinearity occurs when two variables have linearly closed combination with one another. Tolerance value measures how much of the variability of a specific variable is not explained by other independent variables in a model. The tolerance value ranges in-between 0 and 1, however, the closer the value to 1 the better. On the other hand, VIF is the opposite of tolerance value and the VIF value above 10 suggest availability of multicollinearity in a dataset. As depicted in Table 4, all the VIF values are below 10 and the tolerance values are within the acceptable range. In addition, Pearson correlation coefficient is also used to check the presence of multicollinearity in the present study. According to [Tabachnick, Fidell, and Ullman \(2007\)](#), Pearson correlation coefficient value of 80% or above suggest the likelihood of presence of multicollinearity in a dataset. As shown in Table 2, the Pearson correlation coefficient values were all below 80% which suggest non-availability of multicollinearity in the data set. Based on the above insights, there is no evidence of multicollinearity between predictor variables in this study. Accordingly, multicollinearity among variables does not pose a problem in this study. The results of the correlation analysis have supported the need to conduct a more powerful statistical analysis that will reveal the relationships between the variables selected for this study.

Table 4
Result of Multicollinearity Test

Variable	VIF	Tolerance
CEO Ten. * CEO Multiple Membership	5.03	0.1986
CEO Tenure	4.00	0.2497
CEO Multiple Membership	2.04	0.4892
Firm Size	1.19	0.8408
Operating Cash Flow	1.18	0.8441
Leverage	1.15	0.8681
Mean VIF	2.43	

Discussion of the Regression Result

The present study adopt ordinary least square regression to examine the impact of CEO tenure and multiple membership experiences on the profitability of companies in the Nigerian financial sector. Two different models were postulated to test the impact of CEO expertise on firm performance. The first model test the direct impact of CEO tenure and CEO multiple membership on firm performance. The second model test the interaction effect of the independent variables on the firm performance (ROA and ROE). The result of the regression analysis is as summarized in Table 5. As depicted in the Table, the overall regression models are significant at 99% level of confidence in both the two models. This is an indication that the models are fit. Besides, the adjusted R-squares values for all the models shows the overall changes in ROA and ROE that are attributable to CEO tenure, CEO multiple membership and the control variables.

The first model test hypothesis one and two and the result confirmed the hypothesis one. The hypothesis one stated that the length of time CEO stays in office affect performance negatively. In other word, it test whether CEO's stays in office beyond industry

practice affect firm performance. The result below supported that tenure affect ROA negatively. Although the result for ROE is also negative but is insignificant. This indicates that when CEO stays beyond the industry tenure average affect the firms performance negatively. The finding is in line with some previous studies that shows that when CEO stays long in office affect performance negatively (Aaron et al., 2015). For the hypothesis three which test the interaction the result indicate that the relationship is insignificant hence conclusion could not be drawn. The result supported the agency theory that powerful CEO affect firm negatively (Gupta et al., 2018; Veprauskaitė & Adams, 2013).

Table 5
Summary of the Regression Result

	Model 1		Model 2	
	ROE	ROA	ROE	ROA
CEO Tenure	-1.762 (-1.27)	-1.272** (-2.56)	-2.151 (-0.78)	-1.826** (-1.84)
CEO Multiple Membership	1.273 -0.8	0.323 -0.57	1.013 -0.45	-0.0466 (-0.06)
Firm Size	4.788*** -6.51	0.0855 -0.32	4.768*** -6.37	0.0562 -0.21
Operating Cash Flow	33.96** -2.92	16.38*** -3.93	34.11** -2.92	16.59*** -3.96
Leverage Ratio	-24.31** (-2.81)	-7.515* (-2.42)	-24.05** (-2.73)	-7.144* (-2.26)
CEO Ten * Multiple Membership			0.53 -0.16	0.754 -0.65
Intercept	-29.75*** (-4.78)	2.443 -1.09	-29.42*** (-4.49)	2.908 -1.24
Adj. R2	18.20%	12.60%	17.80%	12.30%
No. Observation	198	198	198	198

Note: t statistics in parentheses * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Conclusion

This study investigates the impact of the CEO experience on firm profitability. The study use data from firm in the Nigerian Financial sector and the result indicates that CEO tenure has negative effect on firm profitability. The study differed from other studies in that this study focus on the sources from where the CEO could obtain their experiences. The study therefore examined the effect of the two important sources of the CEO experience and the result of the analysis indicated that CEO tenure has negative impact on the firm performance. Despite the struggle by the firms in obtaining an experience CEO, most of them may be using their long stay in office not in line with the objective of the firm. This is an indication that CEOs could possibly use their experience and connection to manage the income instead of promoting the organisation. This implies that a CEO that stays long in office needs to be closely monitored through a strong governance mechanism to avoid using their expertise in pursuing goals other than that of the organisation.

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